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UNCLAS SECTION 01 OF 02 ANKARA 000492

SIPDIS

SENSITIVE

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TAGS: [ENRG](#) [EINV](#) [BEXP](#) [TU](#)

SUBJECT: TURKEY: AES INTERESTED IN ELECTRICITY DISTRIBUTION
PRIVATIZATION

REF: A. ANKARA 446

[B](#). 04 ANKARA 6797

[C](#). 04 ANKARA 6963

SENSITIVE BUT UNCLASSIFIED. BUSINESS INFORMATION.

[1](#). (SBU) Summary: Arlington, Virginia - based power company AES is seriously interested in investing in Turkey's electricity distribution sector. The GOT has still not clearly established the privatization methodology. This is the second major expression of strong interest by a U.S. company in a Turkey privatization opportunity in a little over a month. Both are approaching this often troubled market seriously and carefully. End Summary.

[2](#). (SBU) In a second visit to Turkey on January 27, five AES Corporation officials called on EconCounselor to discuss AES' serious interest in investing in Turkey's electricity distribution sector. The AES officials stated that they had identified Turkey as a key market of interest for the company that maintains an extensive global presence. They said AES makes strategic investments for the long-term, and with the exception of one case in Georgia, had not exited from any international investment. Therefore, they did not enter new markets lightly. They were making the rounds of the GOT Energy Ministry (MENR), Energy Market Regulatory Authority (EMRA), and Privatization Authority (PA) to pursue their investment decision due diligence. As a good faith gesture of their ability to add value, they were providing GOT officials with a detailed briefing on reducing electricity transmission and distribution technical loss.

[3](#). (SBU) Despite a poor track record, the Government of Turkey (GOT) has an ambitious privatization schedule in 2005 (Ref A). In the energy sector, the GOT has worked with the World Bank to establish both: 1) the Natural Gas Sector Strategy Paper, which sets forth a framework for privatization of gas distribution (underway) and gas import contracts (in tender process)(Ref B); and 2) the Electricity Sector Reform and Privatization Strategy Paper, which sets forth a timeframe for liberalization and privatization of electricity distribution and production sectors. The electricity paper identifies the timing of privatization of the electricity distribution company (TEDAS) for mid 2005 through 2006, for electricity production (EUAS) for 2006-2009, and for the electricity trading company (TETAS) at a yet to be identified date in the future. The transmission company (TEIAS) would remain in the state's hands. The strategy plan is ambitious, and according to EMRA and MENR interlocutors, there have been a number of delays already (some combination of seeking to get it right and inability to get it right).

[4](#). (SBU) There is still uncertainty over the privatization methodology. The Privatization Authority (PA) has been given authority to move forward on the distribution tendering process. The PA has chosen to pursue Transfer of Operating Rights (TOR)- backed share sales as an expedient way to move forward that minimizes risks of later attack from the judicial system and/or labor unions (persistent "nay-sayers" in privatization) and minimizes potentially time-consuming and burdensome inventorying of assets and land title. On the other hand, EMRA and MENR argue for outright asset sale, as a cleaner, investor-friendly method of assuring control. The latter method would have a potentially more direct effect on TEDAS' almost 30,000 employees, but would minimize bureaucratic and regulatory risk for new investors, they argue. There appears to be room for a middle course in which TOR backed share sale could transition to a full-fledged asset sale. MENR is identified as the process coordinator, but the ultimate decision for privatization of electricity distribution will reside with the Treasury and the Prime Minister.

[5](#). (SBU) Comment: After US Steel's expression of interest in purchasing the GOT's stake in Erdemir Steel Company, this is the second recent expression of serious interest by an American company in Turkish privatizations (Ref C). GOT interlocutors have regularly told Embassy that they would welcome U.S. investors in a variety of sectors, including but

not limited to energy and telecom, so AES' interest will be welcomed. GOT can ill afford any additional embarrassment of failed and/or delayed privatization, so it appears to be working assiduously to get a timely success story in electricity distribution. The lively debate on privatization methodology will have to be resolved soon to keep investor interest and move forward on timely tendering. AES is taking a careful approach, cognizant of the challenges and setbacks foreign investors have faced in Turkey. Post will work to encourage timely and transparent decision-making on the part of the GOT and will assist AES and other potential American investors.

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